EX PARTE OR LATE FILED

DOCKET FILE COPY ORIGINAL

ORIGINAL

BEFORE THE

Federal Communications Commission

WASHINGTON, D.C.

RECEIVED

JUN 22 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of	)	
	)	
Review of the Commission's Regulations Governing Television Broadcasting	)	**MM Docket No. 91-221**
	)	
Television Satellite Stations Review of Policy and Rules	)	**MM Docket No. 87-7**

SUPPLEMENTAL COMMENTS

PEGASUS COMMUNICATIONS CORPORATION

David D. Oxenford
Veronica D. McLaughlin

Its Attorneys

FISHER WAYLAND COOPER
LEADER & ZARAGOZA L.L.P.
2001 Pennsylvania Avenue, N.W.
Suite 400
Washington, D.C. 20006
(202) 659-3494

Date: June 22, 1998

No. of Copies rec'd 0+4
List ABCDE

SUMMARY

Pegasus Communications Corporation ("Pegasus") hereby submits its Supplemental Comments in the Commission's rule making proceeding considering TV LMAs and duopolies. In these comments, Pegasus undertakes a comprehensive analytical review of the filings made in July 1997 detailing the nature of LMA relationships existing at that time. Pegasus believes that sufficient information now exists in the public record to support a factual analysis of the impact of LMAs on program diversity and market competitiveness, and a merely presumptive projection of possible ramifications is no longer necessary. The review and analysis finds that:

- LMA relationships are, for the most part, both economically rational and highly pro-competitive. In most cases, and especially in smaller markets, relatively weak stations are combining resources to compete more effectively. Therefore, the two stations involved usually have combined shares of the local television market which are substantially smaller than the single dominant station in that same market -- this result is not indicative of significant anti-competitive behavior.

- There is little, if any, evidence of abuse. Relatively few LMAs were entered into by stations which are the strongest station in their markets, and almost none involved two strong stations in a given market. Instead, most involved the combination of relatively weaker (usually UHF) stations, a majority involved either the construction of new stations or the rescue of financially distressed stations, and virtually all of the remainder cited significant programming upgrades as the primary reason for the combination. In terms of the diversity of available programming, viewers have clearly benefitted substantially.

- Over 40 of the stations involved in LMAs cite the development or expansion of news as being a principal reason for the LMA, allowing the sharing of costs amongst two stations. This is especially significant in the smaller television markets, in which the fixed costs of news programming is nearly prohibitive for all but the dominant stand-alone stations. News availability, as the most prevalent form of local programming, must be a critical factor in any measurement of program diversity.

- On the order of 40 percent or more of the WB and UPN affiliates in markets 25 to 100 appear to be involved in LMA relationships. This both reinforces the program diversity benefits of LMAs and raises the question of such networks' ongoing prosperity in the event LMAs were disallowed.

From these and other findings summarized in the following pages, Pegasus concludes that most LMAs in practice are driven by economic necessity, enhance program diversity and are procompetitive in nature. For similar economic reasons, Pegasus also argues that LMAs may be critical both to the continued strength of emerging networks and to the orderly and rapid introduction of Digital Television in smaller television markets.

Table of Contents

Page

BEFORE THE

Federal Communications Commission

WASHINGTON, D.C.

In the Matter of	)	
	)	
Review of the Commission's Regulations Governing Television Broadcasting	)	**MM Docket No. 91-221**
	)	
Television Satellite Stations Review of Policy and Rules	)	**MM Docket No. 87-7**

SUPPLEMENTAL COMMENTS

Pegasus Communications Corporation ("Pegasus") hereby submits Supplemental Comments in the above-referenced proceeding. On February 7, 1997, Pegasus filed its initial comments in the proceeding, and it filed Reply Comments on March 21, 1997. The initial and reply comments were filed prior to the Commission's request of June 17, 1997 for specific information about existing LMA relationships. These supplemental comments analyze the results of the July 1997 LMA filings which, for the first time, provided specific information capable of analysis to determine the nature and extent of the use of LMAs in the television industry, and the reasons that such LMAs have been entered into. As set forth in more detail below, the analysis of the LMA information supports the initial premise of Pegasus, i.e., that, particularly in smaller television markets, LMAs and television duopoly will foster rather than diminish diversity and competition. Therefore, these Supplemental Comments should be accepted and, as set forth below, the proposals of Pegasus to allow LMAs and duopolies in these markets should be adopted.

BACKGROUND

The initial comments of Pegasus addressed the issue of television Local Marketing Agreements and TV duopoly (hereinafter duopoly and LMA relationships between stations will collectively be referred to as "LMAs"). Pegasus' comments were particularly distinctive in light of what seemed to be the then-prevalent thinking that LMAs, if allowed at all, would be permitted only on an exceptional basis in large markets with some minimum number of remaining "voices." Pegasus' comments focused on smaller markets, and the benefits to diversity and competition that can be fostered by LMAs in such markets.

In the absence of broadly reliable LMA data at that time, Pegasus' arguments were premised on marketplace economic realities derived from Pegasus' extensive small market operating experience. The Pegasus comments could be summarized as follows: 1) the analysis of the impact of LMAs can be fact-based, and need not be relegated to a merely speculative presumption; 2) LMAs can, for reasons of real-world broadcast television economics, be highly beneficial to the public interest; 3) this public interest benefit could be especially pronounced in smaller television markets (roughly encompassed in that group of television markets containing the second 50% of U.S. television households); and 4) if LMAs are not broadly allowed, then each market, and each LMA, has to be dealt with on a case-by-case basis applying reasonable economic principals. Indeed, in the context of smaller (often UHF) stations combining resources to effectively compete with entrenched and dominant (usually VHF) stations, LMAs are merely manifestations of normal business economic practice. Pegasus therefore concluded that LMAs frequently create (rather than reduce) programming diversity, that LMAs measurably enhance (rather than subvert) the potential for new, local television programming, that LMAs materially increase (rather than limit) market competition, and finally that LMAs do not necessarily contribute to a reduction in ownership diversity (since they encourage new station construction and financial rescues of stations which would otherwise economically fail).

SUMMARY OF FINDINGS

Pegasus' economic views in this matter have not changed with the passage of time, and have in fact been strengthened after reviewing the information submitted to the Commission in response to the June 1997 request for further information as to the nature of existing LMAs. Pegasus has compiled the attached analyses of existing LMAs as reported in response to that request for further information. The material submitted pursuant to the Commission request was cross-referenced with additional market data from the national television database maintained by BIA Research, Inc. ("BIA").[1] The resulting master list of LMA markets is attached as Exhibit A.[2] Exhibit B consists of a series of data sorts run on the Exhibit A master list but treating just the LMA stations themselves (i.e., excluding the non-LMA stations in each market). Exhibit C includes a series of summary tables drawn from the LMA data. A definition of the terminology used is also attached as a frontispiece to the Exhibits.

The results of this analysis substantiate the economic arguments made in Pegasus' initial filing – indeed, the economic rationality of LMA decision-making to date is remarkable. The results

---

1 The CD-ROM version of the BIA "MasterAccess" software that was used was compiled for Pegasus by BIA in February, 1998. Revenue and share analyses are therefore based on BIA's 1996 date (1997 data not yet available). Analysis and sorting of that raw data was performed solely by Pegasus staff.

2 This list is based primarily on the information provided in the July 1997 filings. Pegasus believes it provides a substantial representation of LMAs recently in place.

also support Pegasus' arguments relating to market size differentiation. In particular, they demonstrate that in smaller television markets, LMAs have been broadly used to initiate new services and rescue financially distressed stations. Most importantly, these results support Pegasus' contentions that LMAs can be subjected to a fact-based analysis, that theoretic supposition as to their likely impact is unnecessary, and that most existing LMAs are demonstrably in the public interest. Finally, the results demand consideration of the negative consequences to small market programming diversity, to smaller market DTV buildout schedules and to the national availability of the emerging television networks, were LMAs to be forcibly unwound. Pegasus is convinced that such an outcome would materially reduce competition and diversity, and hasten overall industry consolidation.

Specific factual findings are provided in Appendix A hereto, but some of the general observations which arise from a review of the data include the following:

- The character of existing LMAs does actually vary markedly with market size, especially with regard to the nature of the Brokered Station.[3] This variation appears to be largely explicable by a straightforward combination of economic and channel-allocation constraints. The vast bulk (over 84%) of LMAs are in smaller markets comprising the second 50% of U.S. households, being most heavily concentrated in DMAs 26-100. There is a smaller economic value for either the Brokered or the Brokering Station in an LMA in the largest markets (DMAs 1-25, and especially in DMAs 1-10); therefore, few LMAs are found in such

3 A Brokered Station is defined as a station giving up substantial programming decision-making to another station in the market, the latter defined as the Brokering Station.

markets. These markets are large enough for even independent stations to be self-supporting, and competitive enough that the incremental benefit of a second station to an existing major network affiliate is relatively nominal. Alternatively, in the smallest markets (those below DMA 100), a combination of insufficient channel allocations, lack of development pressure from new national networks, extraordinary market dominance by one or two (usually VHF) stations, and extremely small overall market revenues make LMAs of more limited economic usefulness at this time. There are few independent or minor network affiliates to begin with in these small markets, and owners of stations affiliated with the major television networks do not yet perceive in such markets that the economic benefits possible with LMAs are sufficient to overcome the pre-existing economic constraints. But the middle-tier markets have made aggressive use of LMAs to improve market characteristics, and viewers have demonstrably benefited.

- With regard to the Brokering Stations, the evidence suggests that most LMAs are entered into to enhance the competitiveness of second-level stations, not to cement the market control of an already dominant station. There are, in fact, relatively few examples of LMAs involving the top station in a given market, and those that do exist mostly involve competitive markets in which the top station's share is not significantly higher than that of the near competition. By far the largest number of Brokering Stations are Fox affiliates, which, in the smaller markets, are rarely on a par with the NBC, CBS and/or ABC affiliates. LMAs seem to have played a significant role, in such smaller markets, in the enhanced development of the Fox network into a "major" network. Pegasus also believes the current substantive push by Fox affiliates into local news development is materially aided by the existence of LMAs, and might be substantively hampered by the loss of this benefit. The variety of local news offerings is a key measure of market competitiveness and program diversity.

- With regard to the Brokered Stations, LMAs are primarily used to 1) enable construction of entirely new television stations, 2) rescue financially distressed television stations, and/or 3) substantially upgrade available programming in the market. These are all primary economic issues, and suggest that a high proportion of these stations would either not be on the air at all or would be offering far weaker programming slates were it not for the LMAs. Significantly, it appears that approximately 40% to 50% of the UPN and/or WB network affiliates in DMAs 26-100 appear to be in LMA relationships as Brokered Stations. From this evidence, it would seem to follow that the vitality of these new networks might be constrained without these LMA relationships. LMAs are likely, for substantially the same economic reasons, to play a critical role in the development of DTV in smaller markets.
- With so many of the Brokered Stations being either start-ups or rescues, the combined share of the two LMA stations is almost entirely a function of the share of the Brokering Station. A substantial majority of existing LMAs therefore have *combined* market shares well below the share of the single largest station in that market, and there are remarkably few examples of combined shares which would appear to lead to any significant concern from an antitrust perspective. In fact, a large proportion of LMAs involve a combined market share of 50% or less of the top single station in the market.
- Finally, the results imply that, to date, LMAs have been entered into 1) by Brokered Stations mainly when driven by competitive necessity (there appear to be few, if any, examples of

strong stations submitting to LMAs as Brokered Stations), and 2) by Brokering Stations principally to strengthen an otherwise problematic competitive situation. In other words, LMAs have allowed television markets to behave precisely as one would expect normal markets to behave: weaker competitors combining resources to counteract the entrenched dominance of established stations.

DISCUSSION

The over-all conclusion which can be drawn from the analysis of the data is that LMAs contribute to a substantial increase in the programming diversity available to viewers, and competitiveness is materially increased thereby. Pegasus' own experience suggests that an LMA is in large part an economic vehicle designed to 1) enable the development of new local programming on two stations that would otherwise not exist on either station, and 2) enable each station to be programmed toward a narrower audience than one station alone could economically target.[4] Whether or not LMAs have contributed to an increase in ownership diversity would probably have to be reviewed on a case-by-case basis; but given the large proportion of new construction and rescued stations involved, it would be reasonable to suggest that over-all ownership diversity has not been significantly reduced by LMAs to date.[5]

4 It is worth noting in this respect that an LMA (or even "Duopoly") is qualitatively different from consolidation across different markets or across different media: the latter two, at least theoretically, might enable a sameness of "voice" across the stations involved, but such a sameness would be economically irrational in a same-market situation (especially when the market's economic constraints brought about the need for the LMA in the first place).

5 Pegasus is sensitive to the concerns raised regarding ownership diversity of broadcast stations in general, but is herein suggesting that LMAs, although certainly not irrelevant, are not centrally germane to such proceedings.

It is not Pegasus' intention to suggest that LMAs cannot be abused.[6] In fact, in its initial comments, Pegasus proposed at least one possible metering mechanism to help ensure that these arrangements are not used in an anticompetitive manner.[7] It is, however, Pegasus' contention that a substantial majority of LMAs entered into to date appear to have been both economically rational (highly sensitive to individual broadcast market economics) and demonstrably in the general public interest (measured principally by programming diversity and market competitiveness). Pegasus believes the information provided by the July 1997 filings, and information otherwise available to the FCC, provides the Commission with an adequate database of information to eliminate any need to rely on the speculative presumption of possible alternative outcomes. Based on the available information about the actual use of LMAs in the industry, the Commission must conclude that such vehicles actually increase programming diversity and marketplace competitiveness.

A key measure of diversity and marketplace competitiveness must be local news programming. It is Pegasus' experience that in small markets only the stronger stations can economically justify local news. Pegasus believes, however, that LMAs can provide the economic foundation for <u>two</u> additional news offerings. Pegasus has recently hired a corporate news director,

---

6 Although Pegasus also believes appropriate governmental agencies have established expertise in reviewing most of the complexities inherent in such matters.

7 Pegasus suggested that such arrangements be subjected to a combined market share test using the market share of the most successful station in the market as a benchmark. Pegasus believes that such a test would eliminate any anticompetitive arrangements which might arise in the future. However, to realize the public interest benefits cited in these supplemental comments, it is essential that the market share limitations not be made too stringent, as to do so would cut off many of the benefits cited above. Above all, it is critical to recognize that a fixed-point share-of-market ceiling cannot be equitably established across all markets, give the huge variations in market revenue relative to certain minimum broadcast television fixed costs.

has initiated a local news offering in Portland, Maine, and intends to offer news in as many of its markets as economically possible -- developments made possible largely through the existence of its LMAs. In more than 40 of the LMAs reported in the July 15 filings, the development or enhancement of news programming was cited as a reason for the entry into an LMA arrangement.

Not only is news programming fostered by LMAs, but diversity of programming generally is promoted by such arrangements. As set forth on page 6, approximately 40% of the affiliates of the developing UPN and WB networks in DMA markets 26-100, appear to be involved in LMAs. Neither network has a material presence in markets below 100. A forced unwind of these LMA arrangements would clearly have a detrimental impact on these emerging networks.

The enhanced viability of the non-dominant stations in the smaller markets provided by LMAs will also assist in solving what might otherwise be an almost insurmountable problem in the smaller television markets - paying for the costs of the transition to digital television. It is an article of faith amongst virtually all DTV participants -- networks, affiliates, consumer product manufacturers, advertisers and regulators -- that a rapid buildout of DTV facilities is essential to the success of the effort. Any slow or piecemeal buildout would be highly problematic. For smaller market broadcasters this challenge is doubly severe. The cost of a DTV buildout is relatively fixed and insensitive to market size, i.e. the basic equipment costs the same regardless of the size of the market. However, the smaller markets simply have less overall revenue against which to amortize these costs and smaller operating margins with which to absorb the financial impact. Additionally, whereas even a 5-10% "early adopter" penetration in the largest markets might make for an effective revenue-producing DTV audience, smaller markets will have to achieve a substantially higher overall level of audience penetration before receiving any offsetting revenue. The smaller markets will therefore have to sustain operating losses for a longer period. It is certain that the lack of compelling DTV revenue prospects in the near term, and the high probability of a significant negative impact on current operating cash flow, will substantially reduce stations' ability to borrow the capital required for the DTV buildout as senior lenders do not tend to take the promise of future revenues entirely on faith. It is therefore probable that the conversion costs for a stand alone 4th, 5th or 6th station in a small market, are prohibitive -- most such stations simply will not build DTV facilities until a high level of DTV penetration has already been achieved. This creates a second problem, since any DTV penetration will necessarily bleed revenue from analog signals. Thus, in a small market, where the stronger stations may be in a position to convert to DTV, any such conversion which finds an audience in the market will further reduce the revenue base of the weaker stations which have not yet been able to afford the digital conversion, significantly exacerbating the existing VHF/UHF economic differential. This may well have the further consequence of slowing down the penetration rate for the market as a whole, further complicating the scenario. In consequence, it is not surprising that many station sellers in recent years have in fact noted the imminence of a DTV decision as a reason for the timing of their sale.

Pegasus firmly believes LMA relationships will contribute to an earlier, healthier DTV buildout. LMAs provide for an economically stronger and more competitive station as it begins the process. LMAs will mitigate the negative economic consequences of an early DTV buildout, both by reducing construction costs (to a degree as yet unknown, but Pegasus believes potentially significant) and by limiting administrative and programming costs. LMAs might also enable constructive joint marketing endeavors to enhance revenue generation prospects at an earlier stage. Most importantly, LMAs will make access to borrowing capacity substantially easier to achieve, reducing the perceived risk of the venture. The ultimate result is likely to be an earlier and more robust buildout of DTV facilities in smaller markets generally, which itself is likely to minimize inherent risk.

CONCLUSION

Therefore, in this proceeding, the FCC should allow for the continued existence of LMAs, and for the outright ownership of two stations in the same market, in circumstances where such an increase in diversity of programming and marketplace competitiveness will result. This will foster programming diversity, fostering the health of the developing television networks, making available more program choices and higher quality programming, and promoting the rapid buildout of digital television. As the existing use of LMAs demonstrates that these public interest benefits will occur, the Commission should adopt rules that promote the continued use of these arrangements in the public interest.

Respectfully Submitted,

PEGASUS COMMUNICATIONS CORPORATION

By: Veronica D. McLaughlin

David D. Oxenford
Veronica D. McLaughlin

Its Attorneys

FISHER WAYLAND COOPER
LEADER & ZARAGOZA L.L.P.
2001 Pennsylvania Avenue, N.W.
Suite 400
Washington, D.C. 20006
(202) 659-3494
Date: June 22, 1998

Appendix A

Summary Analysis of Data

I. Overview

Pegasus' analyses looked at the following information, when available, on each LMA:

Market Data: Designated Market Area (DMA) name, DMA rank, DMA broadcast revenue, DMA households and number of stations in the market;

Station Data: Signal type (VHF or UHF), network affiliation, local market audience share and owner;

LMA Data: Combined audience share of the two stations involved, stated reason for the LMA (if any) and combination type (VHF/VHF, VHF/UHF, UHF/UHF, or UHF/VHF).

Other: Pegasus also reviewed Brokering Stations separately from Brokered Stations, and analyzed results both across market size (classified in three distinct Tiers[8] by accumulated households), and in light of the ratio of combined market share of the two stations in the LMA relationship to the market share of the largest single station in that market (the "Combined Ratio"[9]).

---

8 Tier 1 Markets comprise DMAs accounting for the top 50% of U.S. television households (DMAs 1-25); Tier 2 Markets comprise DMAs accounting for the next 25% of U.S. television households (DMAs 26-66); Tier 3 Markets comprise DMAs accounting for the remaining 25% of U.S. television households (DMAs 67 and above). All DMA ranking for this purpose are according to BIA's Market Rank data.

9 Pegasus' Combined Ratio is defined as the ratio of the combined local market audience shares of the LMA stations to the local market share of the single largest station in that market.

Pegasus identified a total of 69 LMAs appearing to involve two stations with different network affiliations operating substantially in the same DMA (i.e., excluding satellite relationships and LMAs involving stations in separate DMAs). These 69 LMAs are located in 62 distinct DMAs. There are 7 DMAs with two LMAs in place and none with more than two. The DMAs involved range in size from Dallas-Fort Worth (#8 Market Rank) to Victoria (# 206 Market Rank). Of the 69 LMAs identified, only 11 are in the Tier 1 DMAs (Markets 1-25), 31 are in Tier 2 DMAs (Markets 26-66) and 27 are in the remaining Tier 3 DMAs. Furthermore, fully 45 (65%) of the LMAs are in DMAs 26-100. The significance of this result is discussed more fully below. Pegasus also found that, whereas 64% of the Tier 1 Market LMAs have a Combined Ratio exceeding 75%, this percentage declines to 52% of the Tier 2 markets and only 41% of the Tier 3 markets. The highest Combined Ratio is 135%, only 10 exceed 110%, and nearly all of those exceeding 100% are, predictably, brokered by NBC affiliates (which are already the largest stations in their markets). Interestingly, 3 of the 4 Combined Ratios exceeding 120% are found in DMAs below 133, presumably because of the extreme paucity of stations per market, driven by the equally small size of market revenue.

Of the 69 LMAs identified, only 3 involve VHF/VHF (V/V) relationships; 27 involve VHF/UHF (V/U) relationships; and 39 involve UHF/UHF (U/U) relationships; there were no UHF/VHF combinations. This is not, of course, a surprising result given both the relative scarcity of available VHF channels, especially in smaller markets, and the usual relative strength (due to both signal propagation and historical factors) of VHF stations in their respective markets. Similarly, there does not appear to be any significant correlation between the type of combination (V/V, V/U, or U/U) and the market size involved. However, as is also to be expected, there is indeed a notable correlation of combination type to Combined Ratio: all three of the V/V LMAs demonstrate a Combined Ratio exceeding 50% (with one exceeding 75% and one exceeding 100%), and of the 27 V/U combinations all but 4 exhibit Combined Ratios exceeding 50% (12 had a Combined Ratio exceeding 100% and another 9 exceeding 75%); contrarily, of the 39 U/U combinations fully 19 had Combined Ratios of less than 50% and another 10 of less than 75%. Only 5 of the U/U combinations had a Combined Ratio that exceeded 100%.[10]

Pegasus was able to find some statement of purpose for 55 of the 69 LMAs identified.[11] Of these, 22 claimed to involve new construction, 11 claimed to involve the rescue of a financially distressed station, and 22 claimed to involve the significant upgrade of the programming for the brokered station (e.g., from a shopping channel or independent to a WB or UPN affiliate). There does not appear to be any correlation between stated purpose and Combined Ratio. However, there is a correlation to market size: 72% of the Tier 3 Market LMAs stating a purpose claim to involve either new construction or rescue of a financially distressed station; this drops to 58% of the Tier 2 claimants, and 40% for Tier 1 claimants.

The general conclusions suggested are as follows: 1) LMAs typically are being aggressively used in smaller markets by UHF stations seeking to improve the competitive balance in such markets. 2) Even when used by VHF stations in large markets, there is little, if any, evidence of LMAs being used in a way that could be judged as significantly anticompetitive. 3) The character of LMAs varies considerably as market size decreases. 4) LMAs have probably resulted in a

---

10 The evidence suggests that the Combined Ratio is almost entirely a function of the Brokering Station's share, and it would appear that LMAs are not entered into lightly – owners of strong stations do not submit to an LMA relationship.

11 Pegasus has not undertaken an effort to individually verify these claims of purpose, and the results can therefore only be viewed as suggestive rather than authoritative.

substantial increase and/or enhancement of programming diversity and market competitiveness. The more particular analyses below of Brokering and Brokered Stations cement these conclusions.

II. Brokering Stations

Of the 69 identified Brokering Stations, 25 are Fox affiliates, 19 are NBC affiliates, 11 are ABC affiliates, 9 are CBS affiliates and only 5 are others. As one might expect, 14 (74%) of the 19 LMAs brokered by NBC affiliates have Combined Ratios exceeding 100%, whereas 17 (68%) of the 25 LMAs brokered by Fox affiliates have a Combined Ratio of less than 50%. The ABC-affiliate and CBS-affiliate Brokered LMAs tend to fall in the middle Combined Ratio range. Also predictably, of the three V/V combinations, there are one each brokered by CBS, ABC and NBC affiliates, and none by a Fox affiliate; and only 4 of the 11 ABC-affiliate Brokered LMAs, 3 of the 9 CBS, and 7 of the 19 NBC are U/U combinations, whereas fully 21 of the 25 Fox-affiliate brokered combinations fall in this category. There does not appear to be any significant correlation between the affiliation of the Brokering Station and the market Tiers in which they occur.[12]

One group owner of Brokering Stations accounts for 10 distinct LMAs (7 of these are Fox affiliates); one other group owner accounts for 8 LMAs (4 are Fox affiliates); four group owners account for 4 LMAs each (one with 4 Fox affiliates,[13] one with 4 NBC affiliates, one with 3 NBC

---

12 The one exception is that 3 of the 5 LMAs brokered by stations affiliated with other than the top 4 networks are in Tier 1, and 2 are in Tier 2; but 2 of these 3 Tier 1 stations are owned by Paxson Communications, which is attempting to launch a new network.

13 Pegasus Communications currently has 5 LMA agreements in place, one of which was initiated subsequent to the July 1997 LMA filings and is therefore not reflected in these figures. All 5 involve Fox affiliates as Brokering Stations and WB or UPN affiliated Brokered Stations, all 5 involve new construction of stations not previously on the air, and all 5 show a Combined Ratio under 50%.

affiliates and one with two NBC affiliates); 8 group owners are involved in 2 LMAs each (no notable affiliation trend); and the remaining 19 LMAs involve owners with single LMAs. Of those groups owning four or more Brokering Stations, 10 of those stations are NBC affiliates (8 of which show Combined Ratios exceeding 100%, but with the highest only 118%) and 16 are Fox affiliates (12 having Combined Ratio of less than 50%). There are only 4 ABC, 3 CBS and 1 WB affiliates involved in these larger groups, none with Combined Ratios exceeding 100% and only 3 exceeding 75%. Two 4-station group owners account between them for 7 of the NBC-affiliate brokered LMAs, which largely account for the larger proportion of NBC brokered LMAs relative to the other "big three" networks. The distribution of these group-owned Brokering Stations across market Tiers largely mirrors that of the LMAs as a whole.

It does not appear that the overall concentration of group ownership of LMAs departs significantly from group ownership of television stations in general. Similarly, the share trends identified are only to be expected in that they reflect the share of the Brokering Station, which is in turn reflective (at least in larger markets) of national network audience share trends. One statistic of interest here is that the number of Fox-affiliate brokered LMAs is such a high percentage of the total. This would appear to further substantiate the general (although certainly not definitive) tendency noted above for the use of LMAs primarily to enhance a relatively weak competitive position. The second statistic of interest is the relatively low typical Combined Ratio involved: even when the LMA is brokered by a leading station in the market, the overall impact on relative competitiveness does not generally appear to be decisive.

III. Brokered Stations

The Brokered Station category presents much more significant results. Of the 69 Brokered Stations, 27 are UPN, 9 are WB, and 5 are combined UPN/WB – i.e., WB/UPN affiliates account for 60% of the total. Of the remainder, 7 are Fox, 2 are combined Fox/UPN, only 4 are ABC, 1 each are NBC and CBS, and 13 are Independent/Unknown-affiliation. As noted above, the Combined Ratio is largely a function of the share of the Brokering Station, rather than the Brokered Station, and there does not therefore appear to be any significant correlation of Brokered Station type to Combined Ratio. However, when the affiliations of Brokered Stations are allocated amongst Market Tiers, an even more significant result emerges: almost 50% of the Independent/Unknown-affiliation Brokered Stations are found in the Tier 1 group, but 60% of the WB- or UPN-affiliated Brokered Stations are in Tier 2, and all but 1 of the ABC, CBS, Fox and NBC stations are in Tier 3. Indeed, 38 (or 84%) of the WB- or UPN-affiliated Brokered Stations are found in DMAs 26-100: these also account for 84% of all of the LMAs in those DMAs, and apparently represent on the order of 40% to 50% of all of the full-power WB and UPN affiliates in those DMAs.

The Brokered Station group is more diverse in ownership than the Brokering Station group. There is one 5-station group, one 4-station group, four 2-station groups, and the remaining 52 appear to be singletons. As might be expected, the two large groups are associated with two of the larger brokering station groups.

IV. Conclusion

Pegasus believes the conclusions to be drawn are clear. In Tier 1 markets, wherein the market economics are sufficient to launch a stand-alone station affiliated with a new network, LMAs are relatively rare to begin with, and typically involve Brokered Stations that are independent of affiliation; it is probable that the LMA leads to an upgrade of the Brokered Station's programming and thereby adds somewhat to the programming diversity in the market, but there is little evidence that such LMAs significantly impact market competitiveness either positively or negatively – their effect is more at the margin. However, in smaller Tier 2 markets, many of which do not economically allow for the stand-alone launch of an affiliate of one of the new networks, LMAs appear to have played a decisive role in establishing a viable national presence for such new networks; and they have also enabled less competitive existing network affiliates (often a UHF Fox affiliate) to enhance their own competitive positions.[14] Pegasus suspects that, in these latter cases, the ultimate effect on market competitiveness will be more than marginal, and will be highly beneficial to viewers', programmers' and advertisers' choice. Finally, it would appear that in the smallest Tier 3 markets, LMAs are again used in a different way. There are no WB affiliates below DMA 100, and UPN affiliates are relatively rare. Fox affiliates are the relatively weak newcomers, and one or two well-established (typically VHF) major network affiliates tend to utterly dominate the market. In these last cases, LMAs are rare, and in those that do exist the LMA partner is not infrequently another top-four network affiliate.

---

14 Pegasus, in particular, has found such LMAs to be decisive in its ability to add news and other local programming to its smaller-market UHF Fox affiliates (as well as to the station being brokered). Pegasus expects this to be true of other owners in smaller markets.

Key

"% Station Local Share" = Station's percentage share of the DMA broadcast television market

"LMAs": B = Brokering Station; L = Brokered Station; numbers 1 and 2 are used to indicate relationships in markets with multiple LMAs

"% LMA Comb. Share" = The combined share of the two stations in an LMA relationship as a percentage of the total DMA broadcast television market

"Combined Ratio" = The ratio of the Combined Share of the LMA stations to the share of the largest single station in the indicated DMA, expressed as a percentage of the denominator

"LMA Reason": N = New Construction; R = Rescue of Financially Troubled Station; U = Upgrade of Programming

"Comb. Type": V/V = VHF Broker, with VHF partner; V/U = VHF Broker with UHF Partner; U/U = UHF Broker with UHF Partner.

EXHIBIT A

Master List of LMA Markets

3/26/1998

LMA Listing

Market Rank	Revenue Rank	Market Name	Gross Revenue	# VHF	# UHF	Stn. Ch.	Stn. Affil.	% Station Local Share	LMAs	% LMA Comb. Share	Comb. Ratio	LMA Reason	Comb. Type	Station Owner
8	7	Dallas-Ft. Worth	$ 464,000	4	11	8	ABC	22						Belo Corporation
8	7	Dallas-Ft. Worth	$ 464,000	4	11	11	CBS	13						Gaylord Entertainment Company
8	7	Dallas-Ft. Worth	$ 464,000	4	11	4	FOX	13	B1	17	77	U	V/U	Fox Television Stations Inc
8	7	Dallas-Ft. Worth	$ 464,000	4	11	49	HSN	0						Silver King Communications Incorporated
8	7	Dallas-Ft. Worth	$ 464,000	4	11	39	IND	5	L2					Christian Broadcasting Network
8	7	Dallas-Ft. Worth	$ 464,000	4	11	27	IND	4	L1					Dallas Media Investors Corp
8	7	Dallas-Ft. Worth	$ 464,000	4	11	58	IND	0						Trinity Broadcasting Network Inc
8	7	Dallas-Ft. Worth	$ 464,000	4	11	55	IND	0						Johnson Broadcasting Incorporated
8	7	Dallas-Ft. Worth	$ 464,000	4	11	29	IND	0						Lamb, Marcus D
8	7	Dallas-Ft. Worth	$ 464,000	4	11	47	IND	0						Simons, Mike
8	7	Dallas-Ft. Worth	$ 464,000	4	11	68	INF	0						Paxson Communications Corporation
8	7	Dallas-Ft. Worth	$ 464,000	4	11	5	NBC	21	B2	26	118	R	V/U	NBC/GE
8	7	Dallas-Ft. Worth	$ 464,000	4	11	52	TEL	0						HIC Bcst Partners
8	7	Dallas-Ft. Worth	$ 464,000	4	11	23	UNI	3						Univision Television Group Incorporated
8	7	Dallas-Ft. Worth	$ 464,000	4	11	21	UPN	9						Paramount Stations Group
8	7	Dallas-Ft. Worth	$ 464,000	4	11	33	WB	10						Tribune Broadcasting Company
10	10	Atlanta	$ 408,000	3	7	2	ABC	24						Cox Broadcasting.
10	10	Atlanta	$ 408,000	3	7	46	CBS	12						Tribune Broadcasting Company
10	10	Atlanta	$ 408,000	3	7	5	FOX	18						Fox Television Stations Inc
10	10	Atlanta	$ 408,000	3	7	63	IND	0						Trinity Broadcasting Network Inc
10	10	Atlanta	$ 408,000	3	7	34	INF	0	L1					Whitehead Media Incorporated
10	10	Atlanta	$ 408,000	3	7	14	INF	0	B1	0	0	U	U/U	Paxson Communications Corporation
10	10	Atlanta	$ 408,000	3	7	11	NBC	22						Gannett Company Incorporated
10	10	Atlanta	$ 408,000	3	7	17	TBS	11						Time Warner Inc
10	10	Atlanta	$ 408,000	3	7	69	UPN	4						Paramount Stations Group
10	10	Atlanta	$ 408,000	3	7	36	WB	10						Qwest Broadcasting
12	14	Seattle-Tacoma	$ 283,500	6	4	24		0						Paxson Communications Corporation
12	14	Seattle-Tacoma	$ 283,500	6	4	51		0						African American Broadcasting Company S
12	14	Seattle-Tacoma	$ 283,500	6	4	45		0						Northern Pacific International TV
12	14	Seattle-Tacoma	$ 283,500	6	4	4	ABC	23						Fisher Broadcasting Inc
12	14	Seattle-Tacoma	$ 283,500	6	4	7	CBS	14						Cox Broadcasting.
12	14	Seattle-Tacoma	$ 283,500	6	4	27	DRK	0						Bingham Communications Group
12	14	Seattle-Tacoma	$ 283,500	6	4	13	FOX	15						Kelly Broadcasting Co.
12	14	Seattle-Tacoma	$ 283,500	6	4	12	IND	1						Ackerley Group
12	14	Seattle-Tacoma	$ 283,500	6	4	33	IND	0						Paxson Communications Corporation
12	14	Seattle-Tacoma	$ 283,500	6	4	16	IND	0	L1					Uecker, Susan, Rcvr
12	14	Seattle-Tacoma	$ 283,500	6	4	20	IND	0						Trinity Broadcasting Network Inc
12	14	Seattle-Tacoma	$ 283,500	6	4	5	NBC	31	B1	31	100	N	V/U	Belo Corporation
12	14	Seattle-Tacoma	$ 283,500	6	4	11	UPN	12						Paramount Stations Group